CHASED BY SHADOWS

Teacher's Guide

Like anything that is everywhere, opportunity cost is hard to recognise. But as one of the most deeply informing ideas in Economics, it is important that students get a firm grasp on the concept very near the beginning of their course.

This lesson is designed to get everyone thinking freely and creatively about opportunity cost while discovering that it exists all around us and that every decision is chased by its shadow.

**Part 1** ⏩ **Best and next best?**

Any choice involving scarce resources (including time) always displaces the next-best alternative choice.

The students could divide into informal groups to discuss one of:

how to spend a Saturday

how to use £50

how to arrange the Sixth From Common Room (or equivalent)

The key point here is to recognise trade-offs. All of the students will have different perspectives. Any choice will mean foregoing other possible choices including the next-best choice.

It is worth raising briefly the possibility that the value of competing choices may change...with what implications?

**Part 2** ⏩ **Sweet choices?**

Assemble a basket, tray or plate of 'small sweets' – pocket money items that can conveniently be bought in the supermarket fairly cheaply. You can price the items or offer them all at the same price. The students are given a set sum of 'pocket money' to spend. This could be in the form of paper slips marked 10p or 20p etc.

Offer them the basket and the chance to 'spend' their money. Watch closely if they dither! The dithering is the stuff of opportunity cost!

When they've finally made their choices, discuss the process of choosing. How do you choose between a jelly snake and a flying saucer (or whatever)? What slows down your decision? Presumably it's the alternatives and the complex calculations of prospective utility that must be made. Every child knows how hard this can be. And even when a choice has been made, the opportunity cost can be very painful! We've all had this experience when coming home from a shopping trip with decisions in a plastic bag but the image of the next-best-aternative disconcertingly clear in our head...

**Part 3** ⏩ **X-ray through reality?**

This element of the lesson grips the economic implications of opportunity cost more firmly.

Sometimes, opportunity cost is explicit. For example, a firm has three or four potential investment projects competing for the same funds. A choice has to be made (say, in favour of new IT system) but the opportunity cost is the closest rival option (say, a renewal of the van fleet). Many government initiatives carry an explicit opportunity cost in the same way.

Other decisions are implicit and their opportunity costs are often well-hidden. A firm has a management restaurant but the opportunity cost is a decent-sized training room. A school offers 'A' level German to very small groups and the opportunity cost is smaller Maths sets. Or a college has a cricket square that could be land for housing and so fund an IT centre. Tap any allocation of resources and hear the echo of its opportunity cost...

Ask the students to research a specific opportunity cost within the school/college. [You may want to check that this is OK with those affected: opportunity cost can be a very sensitive area!] Any asset or allocation of resources or time will make a possible subject. Tell them to take nothing for granted! The concept of opportunity cost acts like an X-ray through the fabric of every organisation which is itself a patchwork of resource allocation decisions. Empty rooms, silent machines, deserted spaces all invite enquiry.

* what alternative uses do they have?
* which is the most valuable use?
* is that value smaller or greater than the existing use?

Opportunity cost is a powerful tool and will lever up the paving stones of prior decisions.

Get the students to report back on their research – probably in the next lesson or following week. They may be able to confirm the legitimacy of some decisions but will be able to challenge others. Encourage tem to highlight their findings and to speculate on possible changes in 'optimum allocation'. Opportunity costs may increase in value while the yield of existing decisions may diminish. Every decision is chased by its own shadow?

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Student's Guide

The concept of opportunity cost is a powerful tool in exploring economic options. It is a simple idea but one that you can use in many different situations – and exam questions...

Every allocation of resources carries a next-best option – which 'follows' that actual allocation rather like a 'shadow'. But what happens when the value of the next-best option overtakes the chosen option? In practice, the answer is often 'nothing'. In many cases the opportunity cost of allocation decisions is not recognised or not measured. Resources may remain in sub-optimal (less than best) allocations long after being overtaken by opportunity cost. But if the sub-optimality persists or builds, then eventually allocative forces usually break through and resources will be re-ordered accordingly.

**Research assignment**

Identify one use of resources where opportunity cost might be identified and evaluated. Make sure that everyone concerned is agreeable to your enquiry proceeding!

*To investigate:*

* what – exactly – is the existing use of this resource?
* what are the benefits arising from that use of resources? *Quantify these benefits where you can but be ready to make rough estimates. Include all the qualitative benefits which may not be immediately obvious.*
* what are the alternative uses for this resource allocation? Which of these alternatives is likely to be the most valuable?
* what is the value of the next-best alternative? *Again, include your assessment of the quantitative and qualitative factors.*
* is the value between the value of the existing allocation and the next-best option changing? Is anyone monitoring this gap?
* what conclusions do you draw?

Be as resourceful as you can in carrying out this research. Estimates and best guesses are likely to be essential.

*After this exercise, you might discuss the possible uses of opportunity cost as a concept in the private and public sectors.*